

Message Text

CONFIDENTIAL

PAGE 01 MEXICO 19929 01 OF 03 060610Z

ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 SSO-00 SS-15 INR-07 INRE-00

PM-05 EB-08 /052 W

-----063737 060612Z /11/70

O 010241Z DEC 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC NIACT IMMEDIATE 6653

ALL USCONS MEXICO POUCH

C O N F I D E N T I A L SECTION 01 OF 03 MEXICO 19929

STADIS////////////////////////////////

C O R R E C T E D C O P Y (MRN TO READ 19929 VICE 09929)

FOR DEPUTY

ASSISTANT SECRETARY ARELLANO

E.O. 11652: N/A

TAGS: EGEN, MX

SUBJECT: S/P PAPER ON

U.S.-MEXICAN RELATIONS

1. DURING VISIT HERE NOV. 21, DEPUTY ASSISTANT SECRETARY ARELLANO PROVIDED US WITH COPY OF S/P NOVEMBER 11 PAPER (FIRST DRAFT) ON U.S.-MEXICAN RELATIONS AND INVITED EMBASSY COMMENTS. WE HOPE OUR COMMENTS ARE SUFFICIENTLY TIMELY TO BE CONSIDERED FOR INCORPORATION INTO SUBSEQUENT DRAFTS. WE ASK ALSO THAT IN THE FUTURE PAPERS OF SUCH TRANSCENDENT IMPORTANCE BE TRANSMITTED PROMPTLY TO US AS A MATTER OF COURSE. (ARA/MEX INFORMS US SECOND DRAFT HAS BEEN POUCHED.) WE WOULD HOPE THAT THIS HURRIED ASSESSMENT NOT BE REGARDED AS THE FINAL WORD FROM THE EMBASSY AND THAT WE WILL HAVE OPPORTUNITY TO REVIEW FINAL VERSION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MEXICO 19929 01 OF 03 060610Z

2. WE ARE MOST IMPRESSED WITH THE COMPREHENSIVE NATURE AND ORDERLY PRESENTATION OF CURRENT FACTORS AFFECTING U.S.-MEXICO RELATIONS. WE WILL CHECK LATEST DRAFT WHEN RECEIVED FOR MINOR ERRORS OF FACT NOTED IN THE FIRST DRAFT. OUR MORE SUBSTANTIVE COMMENTS ARE SET FORTH BELOW.

3. POLITICAL, HISTORICAL AND CULTURAL FACTORS. WE SUGGEST SOME ADDITIONAL ATTENTION BE GIVEN TO POLITICAL FACTORS INCLUDING THE CONSTRAINTS IMPOSED AND OPPORTUNITIES OFFERED BY OUR HISTORICAL RELATIONS AND THE INTERMINGLING OF OUR CULTURES. THIS ASPECT OF OUR RELATIONSHIP WAS COVERED IN PART 1 OF OUR PARM (MEXICO 04368). THE STRATEGIC POSITION OF MEXICO ON OUR SOUTHERN BORDER SHOULD BE RECOGNIZED. THIS COULD BE DEVELOPED FURTHER AT THE BOTTOM OF PAGE 5.

4. U.S. INVESTMENT IN MEXICO: GIVEN SMALL SIZE OF U.S. DIRECT INVESTMENT IN MEXICO RELATIVE TO THAT IN MANY OTHER COUNTRIES AND EVEN RELATIVE TO U.S. DIRECT LENDING IN MEXICO, WE QUESTION IF MEXICO CAN BE CALLED A FAVORED SITE FOR U.S. DIRECT INVESTMENT. FURTHERMORE, WITH THE NEW PETROLEUM DISCOVERIES, MEXICO CAN CONTINUE ITS PREFERRED POLICY OF BORROWING WHEN NECESSARY TO FINANCE DEVELOPMENT RATHER THAN TO ENCOURAGE FOREIGN EQUITY INVESTMENT. IF WE TAKE THESE NEW RESOURCES TOGETHER WITH RECENT TIGHTENING OF FOREIGN INVESTMENT RULES, WE MIGHT HYPOTHESIZE THAT MEXICO MAY NOT BE A PARTICULARLY HOSPITABLE HOST TO U.S. DIRECT INVESTMENT IN THE FUTURE.

5. MEXICAN LABOR FORCE: WE BELIEVE TOO MODEST THE FIGURE OF 600,000 FOR THE ANNUAL INCREMENT TO THE MEXICAN LABOR

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MEXICO 19929 01 OF 03 060610Z

FORCE (PAGE 15 AND ELSEWHERE). NATIONAL PATRIMONY HAS USED THE FIGURE OF 700,000, AND OUR OWN CALCULATION OF THE POPULATION DISTRIBUTION AND ANNUAL POPULATION INCREASE GIVES FIGURE FROM 700,000 TO 900,000.

6. THE USE OF WORD "ILLEGALS" (ON PAGE 16 AND ELSEWHERE) IS MISLEADING SINCE WE ARE CONSIDERING PRIMARILY ILLEGAL MIGRANT WORKERS IN THIS PAPER.

7. THE FIGURES USED (PAGE 17) FOR THE ANNUAL LEGAL IMMIGRATION ARE NOT STATED CORRECTLY; 40,000 SHOULD READ 20,000. IN ADDITION, WE SUGGEST CLARIFICATION OF PARAGRAPH C ON PAGE 21, SIGNIFICANCE OF WHICH IS UNCLEAR AS IT STANDS. AND ALSO ELABORATION AND ELUCIDATION OF EXAMPLES IN OPTION 1A ON PAGE 46.

8. ON PAGE 18 THE SENTENCE COMPARING WHAT IMMIGRANTS MAKE IN THE U.S. TO THE AVERAGE MEXICAN INCOME IS MISLEADING, EVEN IF ATTRIBUTABLE TO BUSTAMANTE. AS PAPER MAKES CLEAR ELSEWHERE, MEXICO HAS ONE OF THE WORLD'S WORST INCOME DISTRIBUTIONS, AND IT IS VIRTUALLY CERTAIN THAT THE ILLEGAL IMMIGRANTS COME FROM THE LOWER END OF

THE SCALE.

9. WE CAUTION AGAINST THE USE OF EVEN "ROUGH ESTIMATES" IN CONNECTION WITH ANNUAL REMITTANCES TO MEXICO BY ILLEGAL IMMIGRANTS. WHILE THE FIGURE IS SIGNIFICANT, IT IS ALMOST IMPOSSIBLE TO DETERMINE. WERE IT AS LARGE AS \$3 BILLION (PAGE 19), WE WOULD SEE MORE EVIDENCE OF IT IN MEXICAN NATIONAL ACCOUNTS.

10. THE PRICE FOR GAS ON PAGE 24 IS GIVEN INCORRECTLY AS \$2.80 INSTEAD OF \$2.60 OR \$2.62.

11. THE GOM IS TRYING TO REPLACE ITS IMPORT LICENSING SYSTEM (PAGES 26 AND 29) WITH A TARIFF SYSTEM, BUT WE
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MEXICO 19929 01 OF 03 060610Z

REMAIN SKEPTICAL OVER ITS ABILITY TO CARRY OUT THE JOB

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MEXICO 19929 02 OF 03 060803Z
ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 SSO-00 SS-15 INR-07 INRE-00
PM-05 EB-08 /052 W

-----064562 060804Z /11/70

O 010241Z DEC 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC NIACT IMMEDIATE 6654

ALL USCONS MEXICO POUCH

C O N F I D E N T I A L SECTION 02 OF 03 MEXICO 19929

STADIS////////////////////////////////////

C O R R E C T E D C O P Y (MRN TO READ 19929 VICE 09929)

TO THE POINT WHERE THERE IS SIGNIFICANTLY LESS PROTEC-

TION.

12. THOUGH IMPLIED IN THE AMOUNT OF FOREIGN BORROWING SHOWN (PAGE 31), DEBT SERVICE REQUIREMENTS ARE AN ADDITIONAL CONSTRAINT ON NEW BORROWING (31A).

13. WE QUESTION USING THE 17 PERCENT SUPPOSED CURRENT PRIME INTEREST RATE (PAGE 32) AS AN ILLUSTRATION OF NEEDED PRIVATE BANK COMPETITION. THERE IS NO REAL PRIME RATE IN MEXICO AND THE CLOSEST EQUIVALENT FIGURE WOULD BE 22-23 PERCENT.

14. THE SIZE OF MEXICO'S GDP (PAGE 35) IN DOLLAR TERMS IS MISLEADING BECAUSE OF LAST YEAR'S DEVALUATIONS. THE MOST ACCURATE CURRENT FIGURE WILL BE \$71 BILLION FOR 1977.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MEXICO 19929 02 OF 03 060803Z

15. DEVELOPMENT OF AN ALTERNATIVE DEVELOPMENT MODEL (PAGES 36, 37, 38) IS AN INTERESTING PROPOSAL, BUT MAY INVOLVE SO FUNDAMENTAL A REVERSAL AS TO BE PRESENTLY ECONOMICALLY AND POLITICALLY UNACCEPTABLE, AT LEAST TO THE EXTENT DESCRIBED. PERHAPS THE POLITICAL CONSTRAINTS SET FORTH ON PAGE 40 SHOULD BE MORE THOROUGHLY ANALYZED WITH RELATION TO THE OBJECTIVES IN THE DEVELOPMENT MODEL, AND MORE ATTENTION GIVEN TO WAYS IN WHICH MEXICO COULD BE INFLUENCED TO MOVE IN THE DIRECTION OF A NEW DEVELOPMENT STRATEGY. WE AGREE THAT THE UNEMPLOYMENT/ INEQUALITY OF INCOME DISTRIBUTION SYNDROME MUST BE ADDRESSED (PAGE 41) AND BELIEVE PAPER SHOULD DISCUSS POSSIBILITY OF DOING SO IN TWO WAYS: (1) BY USING THE DEVELOPMENT FUND AS A CATALYST TO GET GOM TO ALTER ITS OWN DEVELOPMENT INCENTIVES AND INVESTMENTS; AND (2) BY INFLUENCING GOM TO FULLEST EXTENT POSSIBLE TO EMPLOY ITS PETROLEUM REVENUES TO CREATE JOBS FOR MEXICAN WORKERS IN LABOR INTENSIVE FIELDS, PARTICULARLY IN THOSE GEOGRAPHIC AREAS THAT ARE SOURCES OF UNDOCUMENTED WORKERS.

16. WE SUGGEST ADDING TO THE NEW DEVELOPMENT MODEL, OR PERHAPS TO THE PART UNDER POLITICAL CONSTRAINTS (PAGE 40), A REVIEW OF MEXICAN EDUCATIONAL POLICY, WHICH IS DISCUSSED IN PASSING ON PAGE 37. A CASE COULD BE MADE THAT ALTOGETHER TOO LARGE A SHARE OF RESOURCES FOR EDUCATION GO TO HIGHER EDUCATION FOR THE SOCIAL ELITE GROUPS AT THE EXPENSE OF NEGLECTING WIDER EFFORTS AT THE LOWER LEVELS.

17. ON PAGE 42, THE DISCUSSION OF A FINAL MIX BETWEEN CONTINUITY AND CHANGE SHOULD RECOGNIZE THAT DOMESTIC

INFLUENCES MAY BE PARAMOUNT AND THE RESULT WILL ONLY
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MEXICO 19929 02 OF 03 060803Z

BE INFLUENCED TO A DEGREE BY THE INTERNATIONAL ENVIRON-
MENT.

18. DISCUSSION OF OPTIONS - GENERAL COMMENTS.

FORTUNATELY, A CONSENSUS SEEMS TO BE DEVELOPING WITHIN
USG AND AMONG CONCERNED ACADEMICIANS THAT THE UNITED
STATES HAS AN ESSENTIAL INTEREST IN THE ECONOMIC WELFARE
OF MEXICO, BOTH SHORT AND LONG-TERM. THIS CONCERN
RECOGNIZES THAT IT IS NOT THE OVERALL WEALTH OF MEXICO
THAT COUNTS--MEXICO IS ALREADY ONE OF THE RICHEST LDCS
AND WITH ITS NEWLY FOUND OIL AND GAS WILL BE RICHER YET.
ITS INCOME DISTRIBUTION IS NOTORIOUSLY INEQUITABLE. IF
THIS WERE NOT THE CASE, OUR PRESENT AND FUTURE PROBLEMS
WITH MEXICO WOULD BE VASTLY SIMPLIFIED. OUR NEXT STEP
MIGHT THEN BE TO ASK IF THE PROPOSED ACTIONS IN OPTIONS
2 AND 3 (INCORRECTLY NUMBERED AS 4) HELP TO RESTRUCTURE
MEXICO OR MERELY HELP POSTPONE INTERNAL REFORM BY MAKING
INCREMENTAL ADDITIONS TO THE GDP. IN ADDITION TO AN
EXAMINATION OF USG "LEVERAGE"--WHICH MAY BE MINIMAL--A
POLICY PAPER SHOULD TRY TO WEIGH THE BENEFITS TO THE U.S.
AGAINST RISKS OF TRYING TO INFLUENCE MEXICO'S INTERNAL
STRUCTURES. ONE OF THE RISKS IS THAT VESTED INTERESTS
DO NOT GIVE UP EASILY AND ARE CAPABLE, AS HAS BEEN DONE
ELSEWHERE IN LATIN AMERICA, OF JOINING WITH EXTREME
LEFTWING ELEMENTS IN ATTACKING THE UNITED STATES AS A
MEANS OF HOLDING OFF DOMESTIC REFORM. WE SHOULD WEIGH
CAREFULLY THE LIKELIHOOD OF SUCCESS OF PROPOSALS TO HELP
MEXICO, BUT SHOULD NOT ALLOW THE RISKS TO PARALYZE US
INTO INACTIVITY. COMMON SENSE, OF COURSE, DIRECTS THAT
IF THE CHANCES OF SUCCESS ARE PROBLEMATIC, THE
DEPARTMENT OF STATE WOULD WANT TO BE CAREFUL ABOUT
APPEARING TO SUPPORT ON MEXICO'S BEHALF HIGH
MEXICAN GAS PRICES, A RELATIVELY LIBERAL POLICY TOWARD
UNDOCUMENTED ALIENS, AGRICULTURAL PREFERENCES, OR OTHER

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MEXICO 19929 03 OF 03 060832Z

ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 SS-15 INR-07 PM-05 EB-08

SSO-00 INRE-00 /052 W

-----064744 060836Z /21/70

O 010241Z DEC 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC NIACT IMMEDIATE 6655

ALL USCONS MEXICO POUCH

C O N F I D E N T I A L SECTION 03 OF 03 MEXICO 19929

STADIS////////////////////////////////////

C O R R E C T E D C O P Y (MRN TO READ 19929 VICE 09929)

COURSES SUGGESTED IN OPTIONS 2 OR 3, WHEN THESE ACTIONS
WOULD APPEAR CONTRARY TO VARIOUS U.S. DOMESTIC INTERESTS.

19. OPTION ANALYSIS. IF IT IS "LEVERAGE" WE NEED AS
MUCH OR MORE THAN INCREMENTAL ADDITIONS TOMEXICAN GDP,
PERHAPS WE SHOULD COMBINE OPTIONS 1 AND 2 AND EVEN DRAW
SOME IDEAS FROM OPTION 3. NEW RESOURCES THAT THE UNITED
STATES MIGHT BE ABLE TO MAKE AVAILABLE TO MEXICO WILL BE
OVERSHADOWED BY WHAT WILL BECOME AVAILABLE FROM GAS AND
OIL. NEVERTHELESS, THE GOM WILL HAVE TO OVERCOME BASIC
STRUCTURAL PROBLEMS IN TRANSLATING THESE PETROLEUM
RICHES INTO NEW JOBS AND PARTICULARLY INTO NEW JOBS IN
THE COUNTRYSIDE. BECAUSE OF URBAN AND SOCIAL PROBLEMS OF
CITIES, THE GOM'S AND USG'S INTERESTS COINCIDE IN CREATING
MEXICAN RURAL EMPLOYMENT. QUITE POSSIBLY THE PROPOSED
U.S. DEVELOPMENT FUND COULD FINANCE PILOT PROJECTS IN THE
COUNTRYSIDE TO BE SUPPORTED ADDITIONALLY BY RESOURCES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MEXICO 19929 03 OF 03 060832Z

FROM PETROLEUM EXPORTS. IF WE WERE TO SEEK ANY MODER-
ATION IN U.S. IMPORT REGIMES, PERHAPS THE CHANGES SHOULD
BE LIMITED TO THE OUTPUT OF SUCH PROJECTS. OUR EFFORTS
TO DEVELOP JOINT PROJECTS IN THIS AREA COULD BE
JUSTIFIED ON THE GROUNDS THAT WE ARE ATTEMPTING A
CONSTRUCTIVE RESPONSE TO REGULATE THE FLOW OF ILLEGAL
WORKERS WHICH IS FULLY WITHIN THE U.S.'S RIGHTS.

20. IN CONCLUSION, WE AGAIN CONGRATULATE S/P FOR THIS
EXCELLENT ANALYSIS AND POLICY PAPER. WE HAVE NOT BEEN
ABLE TO COMMENT ON ALL ASPECTS OF THE PAPER WHICH, IN
ANY CASE, MAY ALREADY HAVE BEEN REVISED. WE HOPE TO
HAVE ADDITIONAL OPPORTUNITY TO MAKE AN INPUT INTO FUTURE

DRAFTS, PARTICULARLY WITH RESPECT TO THE REFORMULATION
OF POLICY OPTIONS. LUCEY

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PAPERS, ECONOMIC COOPERATION, FOREIGN RELATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Dec-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MEXICO19929
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770451-0789
Format: TEL
From: MEXICO
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197712105/aaaadlgv.tel
Line Count: 334
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5af6cefb-c188-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 113441
Secure: OPEN
Status: NATIVE
Subject: S/P PAPER ON U.S.-MEXICAN RELATIONS
TAGS: EGEN, MX
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/5af6cefb-c188-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009